DIRECT TESTIMONY OF
BEN CATT
IN
DOCKET NO. 2017-281-E

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Ben Catt. I am currently the Chief Capital Officer of Pine Gate Renewables, LLC, headquartered at 1111 Hawthorne Ln #201, Charlotte, NC 28205.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION OR ANY OTHER PUBLIC SERVICE COMMISSION?

A. I have not had the pleasure of appearing before this Commission.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to demonstrate why the Commission should require Duke Energy Carolinas and Duke Energy Progress to offer power purchase agreements with financeable term lengths, and why five-year PPAs are not financeable.

Q. DESCRIBE YOUR EXPERIENCE IN THE SOLAR ENERGY INDUSTRY.

A. Prior to joining Pine Gate Renewables, I held the role of Director of Structured Finance for solar developer FLS Energy, located in Asheville, North Carolina. In my roles with FLS Energy and Pine Gate Renewables, I have worked to raise and close project financing for over 750 MW of utility scale solar projects throughout the southeastern United States, involving over $1 billion in third party capital commitments.

Q. CAN YOU DESCRIBE THE TYPICAL FINANCING PROCESS FOR A SOLAR FACILITY?

A. Solar project financings typically include either a leveraged tax equity financing structure or a sale to a tax efficient project buyer. The typical parties for these types of financings are banks, financial institutions, investment funds, and corporations. These institutions participate in project financings from both a project debt and tax equity capacity in conjunction with additional permanent project equity sourced either directly from the project developer or a third-party equity investment partner.

Q. CAN YOU DESCRIBE SOME OF THE KEY PROJECT CHARACTERISTICS THAT THESE FINANCING PARTIES EVALUATE WHEN DETERMINING THE VIABILITY OF A FINANCEABLE SOLAR PROJECT?

A. There are several key characteristics that financing parties evaluate when making investment decisions, but among the most critical is the term and structure of the contracted revenue sources for the project. In particular, the duration of the PPA is a key factor when determining financeability, as institutional investors often base their capital allocation decisions on the return profiles that can be achieved within the contracted cash flow period of the facility.

Q. IN YOUR EXPERIENCE, IS A FIVE YEAR PPA TERM A SUFFICIENT DURATION TO RAISE INSTITUTIONAL PROJECT FINANCING?

A. In my experience, a PPA with a five-year term and rates consistent with current avoided cost rates in South Carolina cannot attract the necessary project capital to finance projects, in either a leveraged tax equity financing structure or via an asset sale to a tax efficient third party investor. In either scenario, a PPA with that short a term does not allow a project investor the ability to achieve an adequate return profile during the contracted revenue period, which results in a failure to attract the project capital necessary to finance the construction of the facility.

Q. CAN YOU DESCRIBE WHY CONTRACTED REVENUE PROFILES IN SOUTH CAROLINA ARE A CRITICAL PART OF THE EVALUATION PROCESS FOR RAISING THIRD PARTY FINANCING?

A. In regulated power markets like South Carolina, revenues beyond the contracted PPA term are subject to market and regulatory risk, which puts increased scrutiny on the returns that can be achieved during the contract period. In unregulated markets where there is more demand depth, there is some ability to control pricing exposure beyond the initial contracted term, allowing for increased underwriting flexibility. Also, the depth of market present in an unregulated market allows for liquidity of off taker counterparties which helps to further mitigate post PPA revenue risk. Due to the market characteristics of a regulated market like South Carolina, there is limited liquidity for both the sale of power and for the ability to hedge forward pricing exposure, which makes the returns that can be achieved during the contracted PPA term with the utility much more important to financing.

Q. IN YOUR EXPERIENCE, WHAT IS A SUFFICIENT PPA TERM LENGTH TO ATTRACT THE NECESSARY THIRD PARTY FINANCING FOR A SOLAR PROJECT IN A REGULATED MARKET SUCH AS SOUTH CAROLINA?

A. While there are several factors that contribute to the PPA term necessary for a project to be considered financeable by current commercial standards, in a regulated market like South Carolina, PPA durations of 15 years or more are typically able to meet the return specifications necessary to attract sufficient project financing.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.